

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 53  
BIG BEAR / FAWNSKIN**

**REPORT ON AUDIT**

**JUNE 30, 2006**

**County of San Bernardino Special Districts**  
**County Service Area No. 53**  
**Big Bear / Fawnskin**  
**Table of Contents**

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT		1 - 2
BASIC FINANCIAL STATEMENTS		
<b>Government-Wide Financial Statements</b>		
Statement of Net Assets	A	3
Statement of Activities	B	4
<b>Fund Financial Statements</b>		
Balance Sheet – Governmental Funds	C	5
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	D	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	E	7
Statement of Net Assets – Proprietary Fund	F	8
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund	G	9
Statement of Cash Flows – Proprietary Fund	H	10
Statement of Fiduciary Assets and Liabilities – Agency Funds	I	11
Notes to Financial Statements		12-22
<b>Required Supplementary Information</b>	<u>Schedule</u>	
Budgetary Comparison Schedule - Special Revenue Fund (Fire)	One	23



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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 53 - Big Bear / Fawnskin

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 53 - Big Bear / Fawnskin (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2006, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the State Controller's Minimum Audit Requirement for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 53 - Big Bear / Fawnskin, as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The budgetary comparison information on page 23 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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The County of San Bernardino Special District County Service Area No. 53 - Big Bear / Fawnskin has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

*Rogers, Anderson, Malachuk & Scott, LLP*

September 15, 2006

**County of San Bernardino Special Districts**  
**County Service Area No. 53 - Big Bear / Fawnskin**  
**Statement of Net Assets**  
**June 30, 2006**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 67,746	\$ 668,342	\$ 736,088
Accounts receivable, net	-	95,118	95,118
Interest receivable	2,604	6,543	9,147
Taxes receivable	45,463	-	45,463
Capital assets, net of depreciation	187,811	1,401,547	1,589,358
	<hr/>	<hr/>	<hr/>
Total Assets	303,624	2,171,550	2,475,174
	<hr/>	<hr/>	<hr/>
<b>LIABILITIES</b>	-	-	-
	<hr/>	<hr/>	<hr/>
<b>NET ASSETS</b>			
Invested in capital assets	187,811	1,401,547	1,589,358
Unrestricted	115,813	770,003	885,816
	<hr/>	<hr/>	<hr/>
Total Net Assets	<u>\$ 303,624</u>	<u>\$ 2,171,550</u>	<u>\$ 2,475,174</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 53 - Big Bear / Fawnskin**  
**Statement of Activities**  
**For the Year Ended June 30, 2006**

	Governmental Activities	Business-type Activities	Total
<b>EXPENSES</b>			
Salaries and benefits	\$ 5,050	\$ -	\$ 5,050
Services and supplies	621,776	438,514	1,060,290
Utilities	-	31,149	31,149
Depreciation	9,552	86,137	95,689
Professional fees	-	180,139	180,139
Intergovernmental expense	7,218	-	7,218
Other	-	6	6
Total Program Expenses	<u>643,596</u>	<u>735,945</u>	<u>1,379,541</u>
<b>PROGRAM REVENUES</b>			
Charges for services	-	595,605	595,605
Net Program Expense	<u>(643,596)</u>	<u>(140,340)</u>	<u>(783,936)</u>
<b>GENERAL REVENUES</b>			
Property taxes	584,480	206	584,686
Other taxes	45,366	-	45,366
State assistance	9,718	13,662	23,380
Investment earnings	6,280	20,121	26,401
Penalties	-	4,218	4,218
Other	-	4,028	4,028
Total General Revenues	<u>645,844</u>	<u>42,235</u>	<u>688,079</u>
Change in Net Assets	2,248	(98,105)	(95,857)
<b>Net Assets - beginning</b>	<u>301,376</u>	<u>2,269,655</u>	<u>2,571,031</u>
<b>Net Assets - ending</b>	<u><u>\$ 303,624</u></u>	<u><u>\$ 2,171,550</u></u>	<u><u>\$ 2,475,174</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 53 - Big Bear / Fawnskin**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2006**

	SPECIAL REVENUE FUND <u>Fire (SJS)</u>	OTHER GOVERNMENTAL FUND <u>Streetlights (SJP)</u>	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 66,633	\$ 1,113	\$ 67,746
Interest receivable	2,604	-	2,604
Taxes receivable	44,926	537	45,463
 Total Assets	 <u>\$ 114,163</u>	 <u>\$ 1,650</u>	 <u>\$ 115,813</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Fund balances:			
Unreserved			
Undesignated	<u>114,163</u>	<u>1,650</u>	<u>115,813</u>
 Total Fund Balances	 <u>114,163</u>	 <u>1,650</u>	 <u>115,813</u>
 Total Liabilities and Fund Balances	 <u>\$ 114,163</u>	 <u>\$ 1,650</u>	

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

	<u>187,811</u>
Net Assets of Governmental Activities	<u>\$ 303,624</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 53 - Big Bear / Fawnskin**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

	SPECIAL REVENUE FUND	OTHER GOVERNMENTAL FUND	Total
	Fire (SJS)	Streetlights (SJP)	Governmental Funds
<b>REVENUES</b>			
Property taxes	\$ 577,570	\$ 6,910	\$ 584,480
Other taxes	44,830	536	45,366
State assistance	9,603	115	9,718
Investment earnings	6,280	-	6,280
Total Revenues	<u>638,283</u>	<u>7,561</u>	<u>645,844</u>
<b>EXPENDITURES</b>			
Salaries and benefits	3,240	1,810	5,050
Services and supplies	614,204	7,572	621,776
Total Expenditures	<u>617,444</u>	<u>9,382</u>	<u>626,826</u>
Excess of Revenues Over (Under) Expenditures	<u>20,839</u>	<u>(1,821)</u>	<u>19,018</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	(7,218)	-	(7,218)
Total Other Financing Sources (Uses)	<u>(7,218)</u>	<u>-</u>	<u>(7,218)</u>
Net Change in Fund Balances	13,621	(1,821)	11,800
<b>Fund Balances - beginning</b>	<u>100,542</u>	<u>3,471</u>	<u>104,013</u>
<b>Fund Balances - ending</b>	<u><u>\$ 114,163</u></u>	<u><u>\$ 1,650</u></u>	<u><u>\$ 115,813</u></u>

The accompanying notes are an integral part of these financial statements.



**County of San Bernardino Special Districts**  
**County Service Area No. 53 - Big Bear / Fawnskin**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balances of Governmental Funds to the**  
**Statement of Activities**  
**For the Year Ended June 30, 2006**

Net Change in Fund Balances - Total Governmental Funds	\$	11,800
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the year an asset is purchased. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$9,552) exceeded capital outlay (\$-0-) in the current period.

(9,552)

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Change in Net Assets of Governmental Activities	\$	2,248
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 53 - Big Bear / Fawnskin**  
**Statement of Net Assets**  
**Proprietary Fund**  
**June 30, 2006**

	<u>Enterprise Fund</u>
	<u>Sewer</u>
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 668,342
Accounts receivable, net	95,118
Interest receivable	6,543
	<hr/>
Total Current Assets	770,003
	<hr/>
Noncurrent Assets:	
Capital Assets:	
Improvement to land	3,518,308
Equipment	14,461
Vehicles	18,452
Construction in progress	81,714
Accumulated depreciation	(2,231,388)
	<hr/>
Total Noncurrent Assets	1,401,547
	<hr/>
Total Assets	2,171,550
	<hr/>
<b>LIABILITIES</b>	<hr/>
	-
	<hr/>
<b>NET ASSETS</b>	
Invested in capital assets	1,401,547
Unrestricted	770,003
	<hr/>
Total Net Assets	<u>\$ 2,171,550</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 53 - Big Bear / Fawnskin**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Proprietary Fund**  
**For the Year Ended June 30, 2006**

	<u>Enterprise Fund</u>
	<u>Sewer</u>
<b>OPERATING REVENUES</b>	
Sanitation services	\$ 595,026
Permit and inspection fees	579
Total Operating Revenues	<u>595,605</u>
<b>OPERATING EXPENSES</b>	
Professional fees	180,139
Services and supplies	438,514
Utilities	31,149
Depreciation	86,137
Other	6
Total Operating Expenses	<u>735,945</u>
Operating (Loss)	<u>(140,340)</u>
<b>NONOPERATING REVENUES</b>	
Property taxes	206
Special assessments	13,662
Investment earnings	20,121
Penalties	4,218
Other	4,028
Total Nonoperating Revenues	<u>42,235</u>
Change in Net Assets	(98,105)
<b>Total Net Assets - beginning</b>	<u>2,269,655</u>
<b>Total Net Assets - ending</b>	<u><u>\$ 2,171,550</u></u>

The accompanying notes are an integral part of these financial statements

**County of San Bernardino Special Districts**  
**County Service Area No. 53 - Big Bear / Fawnskin**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

	<u>Enterprise Fund</u>
	<u>Sewer</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 580,689
Payments to suppliers	(649,808)
Net Cash (Used For) Operating Activities	<u>(69,119)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Property taxes	206
Special assessments	13,662
Penalties	4,218
Other nonoperating revenues	4,028
Net Cash Provided By Noncapital Financing Activities	<u>22,114</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of capital assets	(8,033)
Assets transferred in	5,145
Net Cash (Used For) Capital and Related Financing Activities	<u>(2,888)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment earnings	18,268
Net Cash Provided by Investing Activities	<u>18,268</u>
Net Decrease in Cash and Cash Equivalents	(31,625)
<b>Cash and Cash Equivalents - beginning of the year</b>	<u>699,967</u>
<b>Cash and Cash Equivalents - ending of the year</b>	<u><u>\$ 668,342</u></u>
<b>Reconciliation of operating (loss) to net cash (used for) operating activities:</b>	
Operating (loss)	\$ (140,340)
Adjustments to reconcile operating (loss) to net cash (used for) operating activities:	
Depreciation expense	86,137
Change in assets and liabilities:	
Increase in accounts receivable, net	(14,916)
Net Cash (Used for) Operating Activities	<u><u>\$ (69,119)</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 53 - Big Bear / Fawnskin  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
June 30, 2006**

**ASSETS**

Cash and investments	\$ 12,745
	<hr/>
Total Assets	\$ 12,745
	<hr/> <hr/>

**LIABILITIES**

Due to bondholders	\$ 12,745
	<hr/>
Total Liabilities	\$ 12,745
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 53 - Big Bear / Fawnskin**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting entity**

The County Service Area (CSA) No. 53 - Big Bear / Fawnskin is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter. The County of San Bernardino (the County) was established in 1852 as a legal subdivision of the State of California.

The CSA was established by an act of the Board of Supervisors of the County (Board) on January 2, 1968 with the active powers of fire (inspection, suppression, protection, first aid, and rescue) sewer (collection and disposal), water, road (maintenance and improvements), and street lighting. Currently, the governmental reporting entity consists of fire and sewer services to the community of Fawnskin, and street lighting to the north shore of Big Bear Lake.

The CSA is a component unit of the County of San Bernardino and is governed by the action of the county Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 53 – Big Bear / Fawnskin of the County of San Bernardino and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2006.

**Government-wide and fund financial statements**

The government-wide financial statements (e.g., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 53 - Big Bear / Fawnskin**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental fund:

The *special revenue fund* labeled "Fire" provides fire protection services to the community of Fawnskin.

The government reports the following major proprietary fund:

The *enterprise fund*, labeled "sewer" accounts for the activities of the CSA, a blended component unit of the County. The CSA operates the sewer services in the community of Fawnskin.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

**County of San Bernardino Special Districts**  
**County Service Area No. 53 - Big Bear / Fawnskin**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's enterprise fund is charges to customers for sanitation services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demands deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (e.g., the current portion of interfund loans) or "advances to/from other funds" (e.g., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

The \$95,118 accounts receivable balance is the Sewer Enterprise Fund at June 30, 2006 is net of an allowance for doubtful accounts of \$19,403.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1, lien date and become delinquent with penalties on August 31.



**County of San Bernardino Special Districts**  
**County Service Area No. 53 - Big Bear / Fawnskin**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Capital assets**

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend asset life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures & improvements	5 - 45
Equipment and vehicles	6 - 15
Utility plant in service	45

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**County of San Bernardino Special Districts**  
**County Service Area No. 53 - Big Bear / Fawnskin**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Stewardship, compliance and accountability**

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the CSA prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2006.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40.

**County of San Bernardino Special Districts**  
**County Service Area No. 53 - Big Bear / Fawnskin**  
**Notes to Financial Statements**  
**June 30, 2006**

**NOTE 3: ACCOUNTS RECEIVABLE**

At June 30, 2006, the accounts receivable were composed of the following:

	<u>Sewer</u>
Accounts	\$ 114,521
Less: allowance for uncollectibles	<u>(19,403)</u>
Net Total Accounts Receivable	<u><u>\$ 95,118</u></u>

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 155,395	\$ -	\$ -	\$ 155,395
Total capital assets, not being depreciated	<u>155,395</u>	<u>-</u>	<u>-</u>	<u>155,395</u>
Capital assets, being depreciated:				
Improvements to land	6,781	-	-	6,781
Structures and improvements	62,223	-	-	62,223
Equipment	5,103	-	-	5,103
Vehicles	492,873	-	-	492,873
Total capital assets, being depreciated	<u>566,980</u>	<u>-</u>	<u>-</u>	<u>566,980</u>
Less accumulated depreciation for:				
Improvements to land	(5,048)	(84)	-	(5,132)
Structures and improvements	(43,788)	(583)	-	(44,371)
Equipment	(4,819)	(283)	-	(5,102)
Vehicles	(471,357)	(8,602)	-	(479,959)
Total accumulated depreciation	<u>(525,012)</u>	<u>(9,552)</u>	<u>-</u>	<u>(534,564)</u>
Total capital assets, being depreciated, net	<u>41,968</u>	<u>(9,552)</u>	<u>-</u>	<u>32,416</u>
Governmental activities capital assets, net	<u><u>\$ 197,363</u></u>	<u><u>\$ (9,552)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 187,811</u></u>

**County of San Bernardino Special Districts**  
**County Service Area No. 53 - Big Bear / Fawnskin**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE 4: CAPITAL ASSETS (continued)

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 78,826	\$ 2,888	\$ -	\$ 81,714
Total capital assets, not being depreciated	78,826	2,888	-	81,714
Capital assets, being depreciated:				
Utility plant in service	3,518,308	-	-	3,518,308
Equipment	14,461	-	-	14,461
Vehicles	13,307	5,145	-	18,452
Total capital assets, being depreciated	3,546,076	5,145	-	3,551,221
Less accumulated depreciation for:				
Utility plant in service	(2,125,182)	(78,185)	-	(2,203,367)
Equipment	(9,749)	(589)	-	(10,338)
Vehicles	(5,175)	(12,508)	-	(17,683)
Total accumulated depreciation	(2,140,106)	(91,282)	-	(2,231,388)
Total capital assets, being depreciated, net	1,405,970	(86,137)	-	1,319,833
Business-type activities capital assets, net	<u>\$ 1,484,796</u>	<u>\$ (83,249)</u>	<u>\$ -</u>	<u>\$ 1,401,547</u>

NOTE 5: RETIREMENT PLAN

**Plan description**

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (the MDAQMD) and the South Coast Air Quality Management District (the AQMD), were later included, along with the County of San Bernardino (the County), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

**County of San Bernardino Special Districts**  
**County Service Area No. 53 - Big Bear / Fawnskin**  
**Notes to Financial Statements**  
**June 30, 2006**

NOTE 5: RETIREMENT PLAN (continued)

**Fiduciary responsibility**

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2006.

**Funding policy**

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.89% - 12.65% for general members and 10.85% - 14.77% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follow: County General 10.8%, County Safety 23.84%. All employers combined are required to contribute 13.01% of the current year covered payroll. For 2006, the County's annual pension cost of \$166,614,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2006, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$ 166,614
Interest on Pension Assets	(34,207)
Adjustment to the Annual Required Contribution	40,156
Annual Pension Cost	172,563
Annual Contributions Made	166,614
Increase/(Decrease) in Pension Assets	(5,949)
Pension Assets, Beginning of Year	844,882
Pension Assets, End of Year	<u>\$ 838,933</u>

**County of San Bernardino Special Districts  
County Service Area No. 53 - Big Bear / Fawnskin  
Notes to Financial Statements  
June 30, 2006**

**NOTE 5: RETIREMENT PLAN (continued)**

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<b>Year Ended June 30,</b>	<b>Annual Contributions Made (in thousands)</b>		<b>Percentage Contributed</b>
	<b>SBCERA</b>	<b>County</b>	
2004	\$ 652,325	\$ 540,106	100%
2005	\$ 161,906	\$ 141,450	100%
2006	\$ 197,343	\$ 166,614	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the Bonds) in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2006 is \$439,879,000.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of \$189,070,000, \$149,825,000 and \$125,000,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the SBCERA. The current amount outstanding at June 30, 2006 is \$461,665,000.

**NOTE 6: RISK MANAGEMENT**

The CSA is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

**County of San Bernardino Special Districts  
County Service Area No. 53 - Big Bear / Fawnskin  
Notes to Financial Statements  
June 30, 2006**

**NOTE 6: RISK MANAGEMENT (continued)**

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the County's Risk Management Fund (an Internal Service Fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the County's General Fund. The IBNR and IBNS liabilities stated on the Risk Management Fund's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 4.25%. It is the County's practice to obtain actuarial studies on an annual basis.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreement totaled \$47.7 million at June 30, 2006.

The total claims liability of \$127.2 million reported at June 30, 2006 is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2005 and 2006 were:

<b>Fiscal Year</b>	<b>Beginning of Fiscal Year Liability (in thousands)</b>	<b>Current Year Claims and Changes in Estimates (in thousands)</b>	<b>Claims Payments (in thousands)</b>	<b>End of Fiscal Year Liability (in thousands)</b>
2004 - 05	\$ 101,709	\$ 44,309	\$ (30,304)	\$ 115,714
2005 - 06	\$ 115,714	\$ 46,926	\$ (35,407)	\$ 127,233

**NOTE 7: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**County of San Bernardino Special Districts  
County Service Area No. 53 - Big Bear / Fawnskin  
Notes to Financial Statements  
June 30, 2006**

**NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2005-2006 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**NOTE 9: REFUNDING OF 1915 ACT BONDS**

The CSA issued bonds under the Improvement Act of 1915 to finance certain sewer improvements. There were no outstanding Special Assessment Bonds at June 30, 2006. Cash and cash equivalents in reserve funds at June 30, 2006 totaled \$12,745.

Disposition of the reserve funds will be determined by the Board of Supervisors during the next fiscal year.

**NOTE 10: CONTINGENCIES**

As of June 30, 2006, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.



**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 53 - Big Bear / Fawnskin**  
**Budgetary Comparison Schedule - Special Revenue Fund (Fire)**  
**For the Year Ended June 30, 2006**

	Special Revenue Fund			
	Fire (SJS)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive Negative)
REVENUES				
Property taxes	\$ 560,000	\$ 560,000	\$ 577,570	\$ 17,570
Other taxes	-	-	44,830	44,830
State assistance	-	-	9,603	9,603
Investment earnings	1,700	1,700	6,280	4,580
Total Revenues	561,700	561,700	638,283	76,583
EXPENDITURES				
Salaries and benefits	3,240	3,240	3,240	-
Services and supplies	608,053	609,653	614,204	(4,551)
Reserves and contingencies	39,323	39,323	-	39,323
Total Expenditures	650,616	652,216	617,444	34,772
Excess of Revenues Over (Under) Expenditures	(88,916)	(90,516)	20,839	111,355
OTHER FINANCING SOURCES (USES)				
Transfer out	(11,635)	(10,035)	(7,218)	2,817
Total Other Financing Sources (Uses)	(11,635)	(10,035)	(7,218)	2,817
Net Change in Fund Balance	\$ (100,551)	\$ (100,551)	13,621	\$ 114,172
Fund Balance - beginning			100,542	
Fund Balance - ending			\$ 114,163	